Pakistan's Economy Can't Grow Without Fundamental Changes.

Is the Argentine's Experience the Best Model to Follow?

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Today's Pakistan is finding itself face to face with the chronic crisis of fiscal bankruptcy. To expect that the old guards working through the alien system will be able to resolve this gigantic problem seems to be beyond comprehension. It is the same system that has drowned the country into asymmetric debt without even for a moment, thinking that all these financial obligations are one day going to knock at the nations' of door. As this is the situation, what is desperately needed is to bring about revolutionary changes in existing system.

Economic development is a formidable task. One needs visionaries to take the country along and put it on a self-sustained path of development. The present system of economic management cannot deliver the goods. The need of the time is to bring about the desired changes before it is too late. With this background in mind, the author would like to share the Argentine model that seems to be worth following. It has already succeeded beyond doubt and there is an ample evidence to show that Pakistan which too has a lot in common with the situation obtaining in Argentine in 1989, could also carry the day.

Dr. Saul Menem, the President of Argentine was able to find Domingo F.Cavallo to work as Minister of Economics to deliver the goods. He was able, for instance, to quadruple the per capita income of

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Argentine in a matter of six years. He also turned an insolvent country into a fastly developing one. This has been a feat worthy of imitation by the third world.

SELECTED ECONOMIC INDICATORS

A comparative study of Argentine and Pakistan; 1989/1995

	GNP per capita US $	GDP Mill.US $	Exports Mill.US $	Imports Mill.US $	Gross International Reserves Mill. US $	External debt Mill.US $	Interest payments on foreign debt. Mill. US $	Profit remittances Mill. US $
Argentine 1989	2, 160	68,997	9567	4,200	3 217	64,745	1,519	675
Pakistan 1995	460	60,649	7,992	11,461	1 200[1]	39,000	2,966	70

Net resources flows; Mill. US $	Stockeexchange market capitalization Mill. US $	Stock Market Price Index	Gross domestic investment % increase	Overall surplus/ deficit as % of GNP
783	4 225	717.2	-7.8	-4.9
3 341	15000	1,912.0	4.05	-4.8

Average annual inflation (GDP) deflator)	**Change in consumer price index %**	**Exchange Rate**
334.5	3 079.8	0.1360
9.2	12.3	42.41

(1)1997; (2)1994; (3)Argentine: Bolsa, 1997 0.00001; (4) Kse 100 Index 1, 1991=1000); (5)1990/95; (6)1980-89; (7)1985/95; (8)July 22, 1997

The Pakistani nation has just celebrated the golden jubilee of Pakistan. But one question that is baffling the minds of our nation is that what did we achieve during all these fifty years? Did we make Pakistan economically strong and politically stable? These are difficult questions to answer. As far as economic development is concerned, our performance continues to leave a great deal to be desired. This is evident from the fact that while back in the sixties our per capita income was little higher than South Korea i.e. US $10 as against $100 meanwhile things have started looking dismal. Korea's per capita income stood at $9 700 in 1995 as against $460 in case of Pakistan. It is a vast difference! Korea's per

1. For details see, World Development Reports 1991: 1997; World Debt Tables, vol.2, Country Tables, 1996; Economic Survey 1996/97, GOP, Economic Division, Economic Adviser's Wing, Islamabad; Emerging Stock Markets Fact book 1996, IFC, Washington, D.C.

capita is now higher than Pakistan by a factor of 21.08. This has happened in amateur to 30 to 35 years!

Convinced of the rapid economic development performed by South Korea, Pakistan and for that matter many a South and South East Asian countries have been looking to the Asian tigers as a model to be imitated. Was that the right thing to do? I am asking this question after having gone deeper into the whole strategy followed by Argentine on the development front. In our recent exercise into the rapid development of Argentine (1989-92) it has come out crystal clear that Pakistan perhaps would have benefited more if it had followed the valuable development experience gained by Argentine than perhaps India or the East Asian tigers.

This study comes out with some exciting revelations. Unlike many a country confronted with serious financial crunches which generally force for expedient measures to come out of the crisis, Argentine undertook a comprehensive strategy to revamp the whole economy along sound lines. One observes this from different measures introduced by the Argentinean Administration under Dr Saul Menem who assumed office in July 1989.

Although Pakistan's present deficit has crossed only marginally the 6 per cent mark which is being considered as another high to be sustained, Argentine's deficit had crossed even the 20 per cent of GDP mark in the eighties. The major reason for such a high deficit was the recessive grant of subsidies, tax exemptions, public enterprise tariffs, and Central Bank's rediscounts. In the overall scenario, one found for years the expenditures exceeding the revenue by a wide margin. This is reflected from the fact that while revenue stood at 17.6 per cent of GDP, the expenditures had crossed 19.9 per cent. The most tragic aspect of the whole fiscal episode was that the national administration found it more convenient to draw upon the Central Bank's funds rather than stepping up the receipts on the revenue front. Exactly the same was done for years in Pakistan. The provincial governments in Argentine also did not hesitate to do the same. Like the Federal government they continued to rely heavily on the provincial banks for purpose of meeting their ever growing deficit. This was done in addition to what they could get from the Federal government. In Pakistan, almost the same is being done but in a slightly different manner. In the absence of provincial banks, the provincial governments have been enjoying financial support from the Federal government. Because of these prodigal spending, no wonder, inflation continued to rise and there soon rose the hyper stage. It is reported that inflation touched the level of 4,923.6 per cent in 1989. Once this happened, interest rates also skyrocketed. Devaluation of the local currency became the order of the day. Although the present position of Pakistan is not as bad as that experienced by Argentine in the eighties, one, however still is worried that the present state of affairs, if not checked soon, could flare up to an unmanageable situation in the near future. One feels worried because here too expenditures are more than revenue, inflation has also crossed the one digit and devaluation of rupee has also become too frequent. For instance, the exchange rate of rupee/dollar which stood at Rs.34.30 to a dollar in December 1995 has meanwhile (Feb.22,1997) crossed the Rs.40 (to be exact Rs.40.50 official; Rs.41.40 open market). The stock market too has been suffering a continuous decline, since 1994 though only recently its has started picking up. The operation of the public sector enterprises in Argentine also left a great deal to be desired. Most of them turned out to be liabilities for the exchequer. In Pakistan, the position is not much different. Here too, the overall position is highly disturbing. Although trillions of rupees stand sunk into this sector since the sixties, the rate of return earned thereon is invariably negative and it is positive only in rare cases. This has been achieved more by manipulation than through improved economic performance. In Argentine, due to satisfactory situation, the Menem Administration felt obliged to privatise all the public sector units or where that was not possible, a partial divestiture was undertaken. According to a World Bank publication, Argentine: Privatisation Programme, it has been reported that by 1993, the privatisation generated over US $8 billion in cash and reduced public external debt by over US $10 billion at-face value and over US $4 billion in cash equivalents. Total external debt of Argentine stood at US $68.3 billion in 1992. Another interesting phenomenon found in Argentine was that while in the eighties it suffered substantial capital flight from the country. Total funds found lying in foreign banks by Argentine nationals were reported to be around $60 to $80 billion in 1989. The stability brought by the Menem regime encouraged many an Argentineans to have their deposits transferred back to their home country. No wonder, the amount of capital returned to Argentine stood at $2746 millions in 1990 and rose to as high as $14 078 millions, 1990 in slightly tapering off to $12 579 million and $9 292 million in 1993 and 1994 respectively. This was a remarkable achievement of the Menem Administration towards the successful working of the revival of economy during 1989-92. The capitalisation of the stock market also rose from $2.9 billion in 1989 to $43.9 billion in 1994.

As against this extraordinary achievement gained by Argentine. Pakistan however still continues to find itself in deep troubles. Neither the privatisation of public sector units(value estimated between \$20 to \$25 billion). nor any significant amount has come back from the refugee capital(estimated at about \$40 billion). The only encouraging development seems to be the most recent rise in the index of the stock exchange which has started rising after a deep recession extending over two and a half years. In case of Pakistan, it is not the FDIs which are making an impact but it is the foreign loans which continue to constitute a major part of development funding- \$1 377 million in 1994. During 1996/97 a sum of \$2 469 million were received. But all these inflows get offset by the debt servicing \$2 309 million in 1996/97. FDIs are still not significant: \$430 million in 1994. Pòrtfolio investment inflow stood at \$1 335 million in 1994. During the year 1995/96, portfolio investment stood at 307 million, as against \$418 million in the preceding year. The GOP is at present negotiating an ESAF loan worth \$1.5 billion from the IMF but doesn't it again appear to be more a stopgap arrangement? Unless the economy gets properly restructured as has been the case of Argentine during 1989/92, not much could be accomplished through short-term or expedient steps.

Pakistan has recently taken a few bold steps aimed at reducing foreign debt and recovering bad debt on the domestic front, but here again the question is: are these policies going to deliver the goods? The problem that confronts Pakistan now is not mere retirement of loans or for that matter recovery of bad debts, but the desperate need to devise an appropriate policy on these issues compatible with the challenge facing the country on the economy's revival front. We should only give priority to those loans which are really unavoidable otherwise early payment of all teams could prove more harmful than beneficial to the ailing economy. Foreign loans, by definition are not bad in nature; what matters the most is their use. Similarly, as far as recovery of bad debts is concerned, this is also not a legal issue alone. One must study on a case by case level and then stagger repayment schedule in such a way that the borrowers' are not forced to liquidate their assets at throw-away prices. The banker having given these loans must accommodate genuine cases and allow repayments in a business like, not legalistic manner. The wisdom lies in getting the loans back in such a manner that the borrowers are not unnecessarily forced to close down their enterprises under certain legal pressures. For all these things there is the desperate need to examine the issues in their broader and deeper perspective as quick-fix solutions could at times really prove disastrous.

As against Pakistan, Argentinean planners have proved themselves more ingenious and innovative and this is how they could book success on most of the fronts. Pakistan too will have to get rid of the traditional planners and bureaucrats who, it seems, lack in-depth knowledge of the problem and frequently resort to immediate solutions without proper scrutiny and analysis.

It is indeed commendable that a country which committed default in the eighties was able to pull itself out of the crisis in a successful manner. This became possible through successful negotiations with the donors and drastic steps at home. One of these steps was to cut the administration to size. It is reported that the Federal employment was reduced by more than 103,000 in 1991/92; in addition, 284,000 teachers and health workers earlier charged to the Federal exchequer were transferred to provincial governments. Here again what seems somewhat doubtful is the fact that how could one economist be entrusted with such a formidable task when such an exercise perhaps demands a much broader approach to be taken up by cross-section of experts and experienced persons.

The timely privatisation did well in Argentine but here in Pakistan this task still remains unresolved. Here again what is needed is not simply privatisation for the sake of it, but the establishment of its relevance to the whole developmental thrust of the new regime. This issue again requires lot of study before it is taken up in all earnestness for implementation.

The Menem Administration assumed office in July 1989 after a decade of crisis in public finances had culminated in hyper inflation. The new team inherited weak public institutions accustomed to deficit spending and reliance on the inflation tax. Claims of the state's resources were far greater than its capacity to mobilise resources-meaning the Argentine state was insolvent. Dependence on the inflation tax had caused the macro economy to become progressively more unstable by shrinking the monetary base to levels that made it impossible to control inflation with even small fiscal gaps.

Realising the growth of the crisis, the Saul Menem Administration enacted a series of structural reforms in its first 42 months that progressively recast the foundations of public finance. These involved restructuring the state through reforms in revenue mobilisation and expenditure reforms. Expenditure refers included administrative reforms to reduce the size and scope of government and improve control over expenditures, a new federalism that made revenue-sharing with the provinces transparent and decentralised selected expenditures, and an extensive programme of privatisation's and asset sale to end irreversibly subsidies through public entities and facilitate new private investment. Finally, the Government also attempted to non financial public sector from the source of inflationary finance through reforms of the Central Bank. These reforms proved successful. This is evident from the fact that revenues increased, expenditures declined, and the non-interest balance moved into sustainable surplus for the first time in decades. The combined deficit of the public sector fell from 10.5 per cent of GDP in 1989 to 1.8 per cent in 1992. Meanwhile it stands already in surplus.

The study under review gives detailed account about the nature of financial instability and public finances. Imbalances in public finance have been central to Argentine's prolonged economic decline. Once among world's most prosperous economies, Argentine has experienced slow economic growth since the 1940s. During the 1970s, the country's long-term growth rate slowed, and in the 1980s the country suffered from its longest period of stagnation in the century. Savings and investment rates fell precipitously from the 1970 until 1989. Argentine's responding to the unstable macroeconomics environment, increasingly saved and invested abroad, labour productivity fell, and poverty worsened. The value of the currency plummeted as the price level increased, and the ratio of public debt to GDP rose to nearly 100 per cent.

Public sector deficits in the late 1970s ranged from 5-14 per cent of GDP, and in the early 1980s surpassed 15 per cent of GDP. Central Bank losses, is included undoubtedly pushed the combined deficit to over 20 per cent of GDP. After the return to constitutional democracy in 1989 efforts were made to control inaction but without success. This happened because of the inability of the Government to redress rapidly and permanently the structural deficit of the public sector. The major reasons responsible for the structural deficit were subsidies, exemptions, agricultural regulations, public enterprise tariffs, and central bank rediscounts, they were estimated at US $7 billion, roughly 8 per cent of GDP by 1987/89.

When the Menem administration assumed office, it got confronted with three macro economics problems grounded in public finance. First, the economic team inherited public institutions that for years had incentives favouring spending without incentives to raise revenues. The national administration, enjoying access to Central Bank financing for its bonds and resorting to arrears, had a reduced incentive to collect taxes. Quite surprisingly, other levels of government the decentralised age, public enterprises, the social security system, and provinces were not subject to effective budget constraints and were usually able to push their deficits back into the Treasury and ultimately the Central Bank. Many public enterprises had evolved into non-accountable fiefdoms, and the Treasury covered deficits through direct transfers and progressive assumption of their liabilities. Public banks were able to draw on rediscounts from the Central Bank. No less undisciplined position was also found amongst other institutions like the social security system. Provinces, relying revenue-sharing and special grants from the Federal government, were able to increase expenditures, especially on employment and general social security benefits; when federal transfers proved insufficient to finance expenditures. They did this by borrowing from their provincial banks. Those deficits were to be remembered by the Central Banks. The private health insurance funds, which administered a compulsory public tax that collectively amounted to 3-4 per cent of GDP, had no account ability to the public at large or minimal accountability to their beneficiaries. These institutional arrangements had important corollaries: the lack of responsibility, based on the absence of public accountability, manifest itself in decreasing revenues and ever weaker controls on spending.

Worst of all, the above situation created another major problem: institutionalising reliance on the inflation tax ultimately made the fiscal deficit endogenous and explosive. After 1988, the causal chain of fiscal deficits to inflation developed strong feedback's from inflation to deficits. This happened because inflation eroded real revenue collections because of lags in collections, a phenomenon that worsened at the higher average inflation rates of the late 1980s because evasion became easier as the currencies lost meaning. A second channel was through tariffs of public enterprises, which typically failed to keep pace with inflation. An added channel was the quasi-fiscal deficit of the Central Bank. Towards the end of the 1988 and 1989 stabilisation episodes, asset holders became more fearful of losses, remonetization slowed, inflation accelerated, and nominal interest rates rose sharply, increasing the interest payments on the liabilities of the Central Bank; this more than offset interest raciest on assets, most of which were unlinked to domestic market rate. Finally, financial markets, leery of inflation surds, responded to indicators of future inflation-notably movements in the exchange rate, increases in public enterprise prices, and fiscal deficits with rapid portfolio shifts against the austral that from time to time reduced the money base by 50 per cent in a matter of days. As things stood, the conditions went on deteriorating unabated.

By the advent of the Menem administration, the history of deficits got confronted with the more fateful problem: the state had become insolvent. Claims on sate resources were far greater than its capacity to mobilise resources. The high ratio of foreign public debt to GDP (approaching 100 per cent in 1989)was only one manifestation of insolvency: others included the unfinanced obligation of the social security system(which was not recorded in fiscal accounts), estimated to be US $7-10 billion and rising by US $200 million per month: excessive employment in the public sector with lifetime guarantees: and "acquired rights" granted to beneficiaries of subsidies) including promoted industries with tax credits of 10-15 years duration. A priority for the Government, therefore, was increasing revenues, reducing flow claims on the Treasury-wage payments and subsidies as well as restructuring the stock of existing liabilities to foreigners, the financial system, social security recipients, and suppliers.. The insolvency problems which the Menem administration encountered were traceable to decades of public sector unbalance. The accounts of the public sector had not been in surplus in three decades. The public sector deficit averaged 14 per cent of GDP in 1980-84, and fell to 8.9 per cent in 1985-89. The non interest or primary balance was in deficit by an average of 9 per cent of GDP in the first half of the 1980s, improving to a deficit of 2.2 per cent of GDP in the second half. These endemic deficits had their origin in an erosion of revenue capacity and inability to contain expenditures. The tax burden as a share of GDP, which had reached 19.5 per cent of GDP in 1980, fell to 16 per cent in 1989. As against this, the expenditures of non financial public sector as a per cent of GDP increased from a level of slightly less than 30 per cent in 1966-70 to a peak of over 55 per cent in 1980-83. Efforts at stabilisation tended to contract these expenditures that were least objectionable politically-invested, the wage bill of the civil service, and other public expenditures. The 1980s left public expenditures compression of the 1980s declined to its lowest level in history from 5.5 per cent in 1983-85: public investment as a share of GDP fell to 4 per cent in 1988. Investment in the Federal Government-roads, schools, hospitals, power-fell especially precipitously since their resources were linked more closely to tax performance. Investment spending in the public enterprises also declined sharply, but in response to their deteriorating savings performance and shrinking borrowing capacity. As a consequence, the quality and quantity of publicly provided goods and services generally deteriorated.

The incoming Menem Administration enacted a series of structural reforms over 30 months that recast the basis of public finance. The

Government undertook difficult steps to reverse reforms in the legal framework, institutions, and policies. This process was characterised by three sets of actions:

i). the Government improved revenue mobilisation to increase the federal resources.

ii). it enacted expenditure reforms to reduce the scope and size of government through administrative reforms that reduced public employment, undertook privatisation to ensure a permanent end to subsidies through public entities, and implemented fiscal decentralisation to make revenue-sharing with the provinces transparent and bring service delivery closer to local constituencies Finally, the Government undertook to restructure its liabilities with domestic and foreign creditors to adjust them to serviceable levels. Other complementary reforms also aided the process of promoting efficient private investment, notably trade and financial sector reforms. The Government improved revenues by broadening the VAT, extending its coverage to all goods (Feb. 1990)And services(Nov. 1990). it also adopted an assets tax in 1990. The Government also improved the efficiency of the tax administration-establishing a control system for the largest taxpayers in Feb. 1991 and rebuilding the tax rolls through more than 400,000 sits inspections in 1990.

Because the wage bill dominated expenditures, the Government reduced the federal bureaucracy in 1990-92. Federal employment was cut by more than 103,000 in 1991-92, a total decline of 15 per cent since 1990; in addition, 284,000 teachers and health workers were transferred to the provincial governments. By doing so, the Federal government was able to increase average salaries, thus reducing its wage expenditures as a share of GDP and by almost 10 per cent in real terms in 1992. The government also enacted a law of Public Finance Administration in September 1992 that will revamp national fiscal accounting, improve expenditure control systems, and establish auditing systems for public expenditures.

Argentine: Fiscal Accounts of the Consolidated Public Sector I Accrual basis as Percentage of GDP[2]

	1989	1991	1992
Current Revenue	17.6	20.4	25.0

2. Secretary: Executed Budgets, 1983-1991, Cash Basis, 1992.

Current Expenditures	19.9	21.8	23.7
Difference	-2.3	-1.4	+1.3

The new Government adopted an accelerated timetable upon taking office for privatisation or partial divestiture of nearly all its enterprises. The programmes objective was to reduce the budgetary burden of the enterprises on the Treasury, making the firms more competitive, and increasing the volume and efficiency of new investment. The Government sold two television stations, ENTEL (US $214 million plus US $5 billion in external debt) and Aeroplane Argentine (US $260 million plus US $2 billion in external debt). Remaining minority government shares in the telephone company were sold for US $1.2 billion in early 1992. The Government began a comprehensive restructuring of the petroleum industry (the first in Latin America) by auctioning off areas of YPF (realising by end- 1991 US $1.6 billion in cash). It granted road and railroad concessions to the private sector and restructured the railways, including the privatisation of long distance cargo lines, and reduction of 15 per cent of the railways work force. It was also planned to privatise most of the remaining public enterprises in 1992, including shares in the petroleum industry, defence industries, the nation's largest distributor of electricity, ports and maritime transport, reinsurance, and the enter power sector. Capital revenues from privatisation thus provided an important source of transitional finance to the fiscal accounts.

The Government also sought to restructure fiscal relationships with the provinces. Building on the co-participation law of 1988, which fixed the share of federal revenues automatically transferred to the provinces at 58 per cent, the Government sought to limit macro instability arising from deficits in the provinces. This entailed limiting the resources provincial governments could access from their provincial banks by progressively terminating Central Bank lending to provincial banks. It also meant reducing extra-co-participation transfers through the budget. Finally, it meant transferring classes of expenditures to provincial administration in 1992, notably secondary education and hospitals. With all these measures, revenue began to increase by leaps and bounds, while expenditures started going down.

The Government's final step in dealing with its insolvency involved restructuring its financing obligations. The government had financed its deficit through borrowing from the financial system (US $3.5 billion)and by accumulating arrears to external creditors (US $8 billion), social security pensions (estimated at US $12-14 billion), and others (US $4 billion). Each of these required major initiatives.

Aware of the imminent crisis looming large on the fiscal front, the Government suspended payment in April 1988, on its external debt to commercial creditous. By 1992, it had accumulated US $8 billion in arrears as part of a US $33 billion medium-term commercial bank debt. Public external debt was US $61 billion. The Government reinitiated partial payment in June 1990, and established a consistent track record of paying about 25 per cent of interest due. At the same time, it allowed external debt to be used in exchange for the sale of assets, which reduced the debt stock by US $7 billion. The measures, together with the progressive improvement in fiscal fundamentals in 1990/91, allowed the Government to begin negotiations with commercial banks on debt reduction deal. The agreement formalised arrears in a 12-year uncollateralized bond at LIBOR with a 3-year grace period, after a US $700 million down payment; it would exchange existing debt for either a collateralized per bond with a fixed interest rate (beginning at 4 per cent and rising to 6 per cent by the next year), or a collateralized discounts bond at 65 per cent of face value at LIBOR; new collateralzed bonds would have a 12 mount rolling interest guarantee. By resorting to these measures, it was expected that the accumulation of arrears will end, and addition it will provide for debt reduction similar to that Mexico's. Debt service payments were planned to begin in 1993 and shall rise to US $3.0 billion by the end of the decade.

With Menem's Administration firmly in the saddle, quantitative restrictions (QRs) were reduced from about 50 per cent of domestic production coverage to 7 per cent by late 1990; the *ad valorem* tariff band was narrowed from 0-115 per cent to 0.24 per cent, with an average rate of about 18 per cent; and the production coverage of industrial export taxes was reduced to 30 per cent. In Feb.1991, the tariff band was reduced furrther to 0-22 per cent, the Government announced that specific duties would be converted to tariffs, and the number of tariff rates was reduced to three (i.e. 0,11 and 22 per cent). In October 1991, the statistical tax on exports was eliminated through the decree on deregulation.

The deterioration in the trade balance, a consequence of massive capital inflows and fixed convertibility that deprived the Government of the exchange rate instrument, compelled the Government to use commercial policy to achieve an effective devaluation. In October 1992, the Government announced measures to increase the competitiveness of exports in the form of partial tax rebate, on average, rebates would be raised from 8 to 13 per cent. The Government also decreased slightly the average tariff on imported goods but increased the across the-board statistical tax from 3 per cent to 10 per cent. Thus, while nominal average *ad valorem* taxes fell slightly, the average effective tariff rose from 14.8 per cent to 19.8 per cent. At the same time, it lowered the maximum *ad valorem* tariff from 35 per cent to 20 per cent, thus narrowing tariff dispersion. In the financial system a few bold steps were taken. The National Housing Banks were asked to close down their branches in March 1990. By doing so, their staff was reduced by almost 75 per cent.

As a result of the above measures, the fiscal performance improved notably. The primary balance move into surplus in 1992 for only the second time in the last two decades. The combined deficit fell from 10.5 per cent of GDP in 1989 to a projected 0.6 per cent surplus in 1992.

Automatic transfers to the provinces and social security increased in 1991/92, which prevented aggregate expenditures from falling more; these — at least initially — helped to alleviate latent structural deficits there as well. Interest costs also declined because of the elimination of the quasi-fiscal deficit and because of the decline in LIBOR.

To change expectations and increase investor confidence so as to lower inflation quickly, the Government enacted the Law of Convertibility in April 1991. The law guaranteed convertibility of pesos to dollars at US \$1=A\$ 1, and effective proscribed money creation other than through increases in net foreign reserves. The convertibility programme thus disciplined monetary policy and limited the powers of the Government to finance it deficit by inflation. The law markedly reduced the foreign exchange rate risk to investors and the inflation risk to business and labour.

As a consequence, the macroeconomics situation improved dramatically. The elimination of the deficit on the basis of sustainable policies made it possible to bring inflation down. As inflation fell, capital returned, and the increased availability of credit produced an economic recovery.

Most important, the programme initiated a strong and sustained economic recovery, rising incomes of the poor, and new employment creation. Because of the reforms of the public sector and consistent macroeconomics policies, the economy has grown rapidly since 1990. The economic expansion contributed to an increase in real GDP by more than 15 per cent. At the same time, investment ratio raise and international liquid reserves got tripled since 1990, and now back virtually the entire money base. Most important, indicators of poverty show substantial improvement. Unemployment fell to less than 6.9 per cent despite the incorporation of new workers into the labour market. The number of households unable to achieve an income twice that necessary to purchase the minimum nutritional basket has fallen from 25.7 per cent in 1988 to 15.6 per cent in 1992. While still much remains to be done, it is, however, worth under-scoring the fact that the three years (1990-1992) proved to be major turn away from the economic policies of the last 40 years.

The Menem Administration made the most impressive progress in improving Argentine's growth prospects. It was able to do so by improving the fundamentals of public finance. These efforts did not only bring price stability within reach, they also helped, ensure sustained high economic growth. As the experience of other countries in the hemisphere shows, this achievement was made possible due to only persistent, resolute and unrelenting pursuit of fiscal stability. Argentine has shown also steadfastly it can pursue this otherwise arduous but rewarding course.